

ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Knight Analyst: Roger Lackey Bill Number: SB 130
Related Bills: See Legislative History Telephone: 845-3627 Introduced Date: 01-25-2001
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Enterprise Zones/Agency Select Application For Additional Zone From City That Meets Specified Criteria

SUMMARY

This bill would allow creation of an additional enterprise zone. The new enterprise zone would have to meet specified criteria.

PURPOSE OF THE BILL

Author's staff has indicated that the purpose of the bill is to assist the city of Barstow in being designated as an enterprise zone.

EFFECTIVE/OPERATIVE DATE

This bill would be effective and operative January 1, 2002.

POSITION

Pending

ANALYSIS

FEDERAL/STATE LAW

Existing federal law creates empowerment zones and enterprise communities to provide economic revitalization of distressed urban and rural areas. The Secretary of Housing and Urban Development and the Secretary of Agriculture designated nine empowerment zones and 95 enterprise communities from areas nominated by state and local governments (one enterprise community is in Imperial County and one enterprise community is in Watsonville). In addition, the Secretary designated two supplemental enterprise zones (one in Los Angeles) and four enhanced enterprise communities (one in Oakland).

Under the Government Code, existing state law allows the governing body of a city or county to apply for designation as an enterprise zone. Using specified criteria, TCA designates enterprise zones from the applications received from the governing bodies. TCA has designated all of the 39 enterprise zones authorized under existing law.

Enterprise zones are designated for 15 years, after which time enterprise zones meeting certain criteria may be extended an additional five years.

Board Position:

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Department Director

Date

Gerald H. Goldberg

03/08/01

When an enterprise zone designation expires, the TCA is authorized to designate another in its place or redesignate the existing zone to maintain a total of 39 enterprise zones.

The TCA may audit enterprise zone programs. The audit would provide a result of superior, pass, or fail. Failing programs may be dedesignated. Businesses that have elected or claimed tax incentives prior to the dedesignation of a zone may continue to claim those tax incentives as if the zone was not dedesignated. The businesses cannot elect or claim the tax incentives beyond the normal life span of the zone. This applies only if the business is otherwise still eligible for those incentives.

Under the Revenue and Taxation Code (R&TC), existing state law allows special tax incentives for taxpayers conducting business activities within an enterprise zone. These incentives include a sales or use tax credit, hiring credit, business expense deduction, special net operating loss treatment, and net interest deduction. In addition, specified employees of businesses operating within an enterprise zone may claim a wage credit.

THIS BILL

This bill would require the TCA to select an application for designation as an enterprise zone from a city that satisfies certain specified criteria. To qualify for designation as an enterprise zone under this bill, an applicant-city must meet each of the criteria listed below.

1. The city's geographical area fulfills at least one of the following:
 - The city's geographical area meets the Urban Development Action Grant criteria of the United States Department of Housing and Urban Development.
 - The area within the proposed zone has experienced plant closures within the past two years affecting more than 100 workers.
 - The city has submitted material to the agency for a finding that the city's geographical area meets criteria of economic distress related to those used in determining eligibility under the Urban Development Action Grant Program and is therefore an eligible area.
 - The area within the proposed zone has a history of gang-related activity, whether or not crimes of violence have been committed.
2. The city is located at the confluence of at least two interstate highways and the confluence of at least two state highways.
3. The city is traversed by railroad mainlines owned by two different interstate railroad companies, at least one of which has sited a major division point in the city.
4. The city has an intermodal railroad-highway carrier facility.

This bill would specify that all tax incentives available to existing enterprise zones under the R&TC would apply to the new enterprise zone designated under this bill.

Any business that utilizes any of the tax incentives available through the enterprise zone that would be created by this bill, must hire at least 30% of its work force from the county where the enterprise zone is established as a prerequisite to claiming the tax incentives.

IMPLEMENTATION CONSIDERATIONS

The bill does not define “work force.” In addition, it does not provide a basis for determining the location of a member of that work force, a method for computing the percentage of the work force hired from a particular area, or a period during which this requirement must be satisfied. Consequently, implementation of this requirement will be difficult without further clarification of the above-specified items.

Once the consideration above is resolved, implementing this bill would require some changes to existing tax forms and instructions and information systems, which could be accomplished during the normal annual update.

Technical Considerations

On page 2, line 17, the bill reads “business hires a least 30 percent...” where it should read “business hires **at** least 30 percent....”.

LEGISLATIVE HISTORY

AB 46, Washington (2001/2002), would require the TCA to rank applicants for an additional enterprise zone within Los Angeles County and designate one from that list.

AB 356, Washington (1999/2000), was identical to AB 46 (2001/2002) and was vetoed by the Governor. The Governor's veto message specified that the number of zones must be limited and the areas chosen on a statewide, competitive basis.

AB 51 (1999/2000) would have allowed the governing body of a city, county, or city and county to apply to the TCA to reconfigure the geographic boundaries of an existing enterprise zone within its jurisdiction. AB 51 failed to pass out of Senate Appropriations.

SB 84 (Stats. 1999, Ch. 137) modified the rules regarding enterprise zones to allow greater expansion into adjacent unincorporated, noncommercial, or nonindustrial areas under certain circumstances.

OTHER STATES' INFORMATION

Currently, 29 other states have economic development areas that allow similar tax related incentives as those provided by California's economic development areas. The number of economic development areas varies from state to state. For example, California currently has 50 economic development areas, while New York has 58, Florida 32, Illinois 93, and Michigan 23.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

Tax Revenue Estimate

Revenue losses are projected to be as follows:

Estimated Revenue Impact of SB 130 As Introduced January 25, 2001 (Enactment After June 30, 2001)			
Fiscal Years	2001-02	2002-03	2003-04
Revenue Impact	(Negligible)	(Minor)	(\$1)

(Negligible) means losses less than \$250,000, (Minor) less than \$500,000.

Any possible changes in employment, personal income, or gross state product that might result from this provision are not taken into account.

Tax Revenue Discussion

Revenue losses under the Personal Income and the Bank and Corporation tax laws would largely depend on the number of businesses that would purchase qualifying property subject to the sales tax, the amount of wages paid to qualifying employees, and the state tax liabilities of employers claiming these tax benefits.

Total revenue losses for the existing 39 designated zones were over \$48 million (average of over \$1 million per zone) for tax year 1998. Because this extension would apply to a significantly depressed area, revenue losses would most likely be below the average in the initial years of zone designation. Allowance was made for new businesses that might start up in future years.

ARGUMENTS/POLICY CONCERNS

This bill does not specify the duration of the enterprise zone designation that would be allowed under this bill.

This bill does not specify that the new area must meet the general enterprise zone designation criteria that requires that the application propose effective, innovative, and comprehensive regulatory, tax, program, and other incentives in attracting private sector investment to the enterprise zone (Section 7073 of the Government Code).

Unlike most economic development areas where a definitive geographic area within a city is designated, this bill would allow an entire city to be designated.

LEGISLATIVE STAFF CONTACT

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